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# AICPA *Washington Report*

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#### COMMERCE, DEPARTMENT OF

An amendment to the Internal Revenue Code that would permit certain businesses to set aside a portion of their pre-tax income as a reserve for self-insurance against product liability claims has been proposed. The proposal, which is intended as a short-term solution to the nation's product liability insurance problems, is part of an options paper on product liability and accident compensation issues being reviewed by the White House and 13 federal agencies (see 4/6/78 Fed. Reg., pp.14612-32). According to a Commerce Department spokesman, a more permanent solution to the problem has been proposed in the form of a draft bill, called the "Product Liability Self-Insurance Act of 1978", which has been sent to the Treasury Department for technical evaluation. The draft bill would permit firms engaged in manufacture, importation, distribution, lease, or sale of a product for which it may incur liability to deduct amounts transferred to a product liability loss reserve account or amounts paid to a captive insurer for coverage of the firm's product liability. In addition to the draft bill and the short-term set-aside program, Commerce has also recommended a study of a no-fault system for consumer products, legislation to spur formation of captive insurance firms by trade associations and business groups, and development of federal guidelines to help private insurers form voluntary insurance pools.

#### COMMODITY FUTURES TRADING COMMISSION

The sale of commodity options has been banned as of 6/1/78. The Commission took this action at a public meeting held on 4/5/78. The action prohibits the sale of commodity options traded on foreign exchanges. The suspension would not affect options purchased before the 6/1/78 cut-off-date. The CFTC will seek help from the DOJ to enforce these regulations and will also assign auditors to insure compliance by commodity firms.

#### DEFENSE, DEPARTMENT OF

Interim guidance on Cost Accounting Standard 409, "Depreciation of Tangible Capital Assets", and development of asset service lives, has been issued by the Defense Department's Cost Accounting Standards Steering Committee. The guidance paper notes that while equitable adjustments of CAS-covered contracts for accounting changes required by CAS are generally applicable only to those contracts in existence on the effective date of the Standard, Standard 409 is an exception in that it allows a two-year grace period to develop records of asset service lives. All CAS-covered contracts and subcontracts awarded before the conclusion of the grace period are subject to equitable price adjustment for changes related to adopting a new method of arriving at asset service lives for assets acquired after the grace period.

#### ENERGY, DEPARTMENT OF

The change in the accounting standards for oil and gas producing companies proposed by the Financial Accounting Standards Board has been opposed by the Department of Energy. In comments filed with the SEC, which is holding hearings on the proposed accounting standard, the Department stated the adoption of the "successful efforts" method could lead to a

reduction in exploratory efforts and hurt competition in the industry. The Department urged that the SEC adopt an accounting method that allows oil and gas producers to reflect the economies of exploration and development.

A public hearing on the proposed survey of oil and gas well operators to obtain estimates on crude oil and natural gas reserves will be held on 5/8/78. The announcement appeared in the 4/6/78 Fed. Reg., pp.14535-6. The hearing will be conducted by the Energy Information Administration and will focus on ways to develop creditable and verifiable information on production data. The proposed Form EIA-23, which would supersede other reserve data reports, will also be discussed. Requests to speak are due by 4/24/78 and should be addressed to DOE, Public Hearing Management, Room 2313, 2000 M Street, Box SQ, Washington, D.C. 20461.

#### ENVIRONMENTAL PROTECTION AGENCY

"Environmental Protection Agency's Construction Grant Program -- Stronger Financial Controls Needed" is the title of a recent report that discusses financial procedures and fiscal controls that need to be improved to ensure the fiscal integrity of the waste treatment construction grant program. The study concludes that grantees generally are not maintaining required accounting records and, as a result, they are requesting and receiving improper reimbursements from the EPA. Included in the report are recommendations to assist grantees in establishing and maintaining adequate accounting controls over grant funds. Copies of the report are available from the GAO for \$1 each (CED-78-24, 4/3/78).

#### FEDERAL RESERVE BOARD

The International Banking Act of 1978, HR 10899, was passed by the House on 4/6/78. This legislation would provide federal regulation for foreign banking operations in the U.S. and insure more equal treatment of foreign and domestic banks. Under the terms of HR 10899, foreign banks which opt for federal charters would be subject to regulation by the Comptroller of the Currency, the Federal Deposit Insurance Corporation, the FRB, and the Bank Holding Company Act. No action has been scheduled by the Senate on this legislation at this time.

Revision of the provisions of Regulation Y concerning insurance sales were proposed by the Board on 3/30/78 in order to conform to court decisions. The proposed revision would permit bank holding companies to act as an insurance agent or broker for specified types of insurance in or adjacent to offices where the bank holding company transacts other business. Under the terms of the revision, bank holding companies would not be allowed to sell insurance for themselves and for non-bank subsidiaries or "convenience" insurance (insurance of any type provided for the customer's convenience). Comments on this proposal are requested by 5/1/78.

Legislation has been introduced to merge the functions of the three bank regulatory agencies into one agency to be known as the Federal Bank Commission. The bill, S.2750, was introduced by Senator Proxmire (D-Wisc) and would provide for examination reports of state banking authorities to be used by the new Commission and for the state authorities to be reimbursed for the cost of such examinations. In addition, it provides

for the retention of the Federal Reserve as an independent agency to control national monetary policy.

#### FEDERAL TRADE COMMISSION

The Commission last week denied the request of the Bureau of Economic Analysis to conduct a study of the accounting "industry". (See the 4/3/78 Washington Report). While it was reported that interest remains high with respect to the profession, the Commission, after consideration of the matter, decided against the undertaking at this time.

A proposed regulation on the release of information from the FTC files under the Freedom of Information Act, which allows disclosure of confidential data under certain circumstances, is currently under attack by the business community. In a statement released on 3/28/78, the Chamber of Commerce charged that the rule would not protect such confidential information as trade secrets and financial data because the companies involved would not be allowed an opportunity to appeal an FTC decision to release the information before the action is taken. In particular, the Chamber criticized provisions which authorize the Commission to release information to Congress and other federal agencies without giving prior notice to the companies involved; and require that a company establish that certain data should not be released under the Freedom of Information Act even before a request for release has been made.

#### GENERAL SERVICES ADMINISTRATION

Temporary procurement regulations reflecting changes made by the Cost Accounting Standards Board have been adopted (see 4/4/78 Fed. Reg., pp.14108-22). These regulations, effective 3/10/78, apply to national defense contracts of civilian executive agencies and adopt the revised CASB requirements for cost accounting standards of negotiated national defense contracts.

#### INTERSTATE COMMERCE COMMISSION

A study of reporting revisions has been announced by the Bureau of Accounts (see the 4/6/78 Fed. Reg., p.14528). The revisions would require certain carriers to file certified statements from an independent public accountant attesting to the conformity of primary financial statements in annual reports with Commission accounting rules. The Commission hopes to develop a compliance program that will promote efficient financial reporting and help resolve questionable accounting practices. The Commission also wants to develop a prescribed audit program to aid compliance audit work done by independent public accountants. Comments are requested by 4/30/78. For further information contact Bryan Brown, Jr., Chief, Section of Accounting at 202/275-7448.

#### PAPERWORK COMMISSION

A report made to the Commission by the Academy for Contemporary Problems, entitled "Impact of Federal Paperwork on State and Local Governments: An Assessment", is now available (S/N 052-003-00470-4, \$2.20). It consists of a series of reports prepared by state, county, and local government organizations on paperwork problems in intergovernmental relations and a summary of their findings and recommendations.

In addition, the Paperwork Commission has released another in its series of interim reports. Entitled "Information Resources Management" (S/N 052-003-00464-0, \$2.20), the report concludes that an important cause of excessive paperwork is the federal government's treatment of information as a "free good" instead of a "resource" to be managed. The Commission's recommendations for improvements incorporate basic management principles such as planning, accounting, budgeting and evaluating. Both of these reports are available from the GPO.

#### PENSION BENEFIT GUARANTY CORPORATION

Final rules on the allocation of pension plan assets have been issued (see 4/4/78 Fed. Reg., pp.14010-13). The regulations provide that the PBGC will guarantee a plan benefit that returns a participant's mandatory employee contributions upon the participant's death or if the participant in a terminating pension plan so chooses, the PBGC will pay in a single installment the value of the participant's own mandatory contributions. These amendments will become effective on 5/4/78.

#### SECURITIES AND EXCHANGE COMMISSION

A proposed amendment to Regulation S-X has been withdrawn. In an open meeting held on 4/6/78, the Commission voted to withdraw the proposed amendment (Rel.33-5427, 10/4/73) which would have increased the disclosure of accounting policies and the impact of those policies on financial statements. The Commission found that many of the proposals have been achieved in alternative ways such as pronouncements by the FASB or related rules adopted by the Commission. Some of the remaining proposals were found to be no longer necessary due to changed circumstances. Other issues such as the question of alternative accounting methods will require further study.

#### TREASURY, DEPARTMENT OF

Certain penalties will not be imposed against tax return preparers until next year. The IRS announced in IR-1980 that penalties will not be imposed on returns filed prior to 1/1/79 for income tax return preparers who fail to compute and report any additions to tax imposed for failing to pay estimated tax. The IRS is taking this action because of substantial confusion in the practitioner community as to whether these additions to tax would be included in IRS determinations of negligent or intentional understatement of a taxpayer's liability

A single level of administrative appeal within the IRS has been proposed. The proposed amendment to the procedural rules appears in the 4/3/78 Fed. Reg., pp.13896-99. IRS proposes to eliminate the near duplication of procedures presently existing in district and Appellate Division taxpayer conferences. The amendments would effect all parties entitled to an IRS conference in order to determine their tax liability. Comments on this proposal are due by 6/2/78 and should be addressed to the Commissioner of Internal Revenue; Attention CC:LR:T (IR-60-78) Washington, D.C. 20224. A public hearing will be held on this proposal on 6/20/78.

The AICPA Federal Tax Division has surveyed its members on this proposal and has discussed the results with the IRS. The Division will comment further at the public hearing in June.

Final regulations on the earned income credit have been published (see the 4/3/78 Fed. Reg., pp.13875-78). The regulations reflect changes made by the Tax Reduction Act of 1975, the Tax Reform Act of 1976 and the Tax Reduction & Simplification Act of 1977. The regulations are effective for taxable years beginning both after 12/31/74 and before 1/1/79. For further information on these regulations, contact William E. Mantle at 202/566-3734.

SPECIAL: NEW INTEREST IN THE ACCOUNTING PROFESSION SPARKED

Senator Metcalf's untimely death resulted in his Subcommittee's responsibilities being shifted within the Senate Governmental Affairs Committee. Recently it was agreed that the Reports, Accounting, and Management Subcommittee would be disestablished and the Governmental Efficiency and the District of Columbia Subcommittee chaired by Senator Thomas Eagleton (D-Mo) would assume responsibility for the accounting matters of the Metcalf Subcommittee.

Last week, Chairman Eagleton sent a questionnaire to each of the national accounting firms, the Cost Accounting Standards Board, the Financial Accounting Standards Board, the Institute and the Securities and Exchange Commission. The request for information sent to President Olson contains 54 separate questions concerning the Institute's progress towards the goals the profession has established.

For further information contact:  
Susan Retter or Steve Woolf  
202/872-8190

## **AICPA** *Washington Report*

**American Institute of Certified Public Accountants**

1620 Eye Street, N.W., Washington, D.C. 20006

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